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STATE OF MONTANA
MONTANA COLLEGE OF MINERAL
SCIENCE AND TECHNOLOGY
REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
Conducted Under Contract By
Authur Andersen and Company
Fiscal Year Ended June 30, 1976



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA



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MONTANA COLLEGE OF MINERAL
SCIENCE AND TECHNOLOGY
REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

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Fiscal Year Ended June 30, 1976

OVERVIEW
AUDIT OF
MONTANA COLLEGE OF MINERAL
SCIENCE AND TECHNOLOGY

March, 1977

INTRODUCTION

The audit of Montana College of Mineral Science and Technology was a financial-compliance audit. The primary purpose of the audit was to form an opinion on the financial statements of the College for the year ended June 30, 1976, and to determine whether the financial statements present fairly the financial position of Montana College of Mineral Science and Technology at June 30, 1976, and the changes in fund balances and the current fund revenues, expenditures and other changes for the year then ended, in conformity with generally accepted accounting principles.

The audit report was qualified because of the inadequacy of prior year records related to property, plant and equipment balances at June 30, 1975. However, we were able to satisfy ourselves that property, plant and equipment additions for the fiscal year ended June 30, 1976, were properly stated at cost.

The indenture dated October 1, 1958, and the supplemental indenture dated April 1, 1970, were read by us and we noted no events of default by Montana College of Mineral Science and Technology in fulfillment of any of the terms, covenants, provisions or conditions of the indenture agreements, insofar as

they pertain to accounting matters, except that the College has not complied with the indenture covenant regarding delivery of audited financial statements to the trustee. The College obtained a waiver of this covenant through January 31, 1977.

Our examination was also made in accordance with the CETA Financial and Compliance Audit Guide and the provisions of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", insofar as they relate to contract No. PSE-327-6-6708, including modifications 1, 2 and 3. We noted no events of noncompliance by the College in fulfillment of the terms of this contract.

RECOMMENDATIONS FOR IMPROVEMENTS IN ACCOUNTING PROCEDURES AND INTERNAL CONTROL

In connection with our examination, we also provided suggestions and recommendations for improving the accounting and operating procedures and strengthening the system of internal control for Montana College of Mineral Science and Technology. The matters discussed in the memorandum were considered by us during our examination of the financial statements as of June 30, 1976, and they did not modify the opinion expressed in our auditors' report dated November 19, 1976, on such financial statements. Among the matters discussed in this memorandum are the following suggestions:

- Improve documentation of certain accounting procedures.
- Formalize gift and grant reporting documentation.
- Develop detail properly records and related procedures.
- Investigate possible additional uses of loan funds.

- Delete sick pay from wages currently subject to FICA and FUTA taxes.
- Eliminate duplication of effort between Bureau of Mines and business office.
- Maintain compliance checklists of various restrictive covenants of indentures and endowment agreements.
- Maintain better EDP system documentation and formalize various aspects of EDP operations.

PRIOR YEAR RECOMMENDATIONS

The most significant prior year suggestion which has not been implemented is that of establishing procedures to properly record all fixed asset acquisitions and dispositions, take annual physical inventories of fixed assets, and attach identification tags to fixed assets.

* * * * *

We received a high level of cooperation from the personnel of Montana College of Mineral Science and Technology throughout our examination. Their comments related to our recommendations have been incorporated in the summary of recommendations.

STATE OF MONTANA
Office of the Legislative Auditor

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MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

February 16, 1977

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Montana
College of Mineral Science and Technology for the year ended June 30,
1976.

The audit was conducted by Arthur Andersen and Company under a
contract between the firm and our office. The comments and recommen-
dations contained in this report represent the views of the firm and not
necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, reading "Morris L. Brusett".

Morris L. Brusett, C.P.A.
Legislative Auditor

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SUMMARY OF RECOMMENDATIONS

The following is a summary of recommendations for improvements in accounting procedures and internal control, and includes an indication of whether or not the agency concurs with each recommendation.

Page

Certain phases of written procedures should be better documented. 2

Agency Reply:

We will review and modify as needed our written policies.

Formalize gift and grant reporting documentation. 3

Agency Reply:

We concur and this is in the process of being done.

Develop detail property records and related procedures. 3

Agency Reply:

As soon as we receive the Montana Administrative Manual chapter entitled Property Accountability Management Systems, we will proceed in this area.

Investigate possible additional uses of loan funds. 3

Agency Reply:

We will review this area to see if better utilization is possible.

Involve academic and administrative personnel more fully in the budgeting process. 3

Agency Reply:

The president of the college has made every attempt to involve academic and administrative people more fully in the budgeting process and we will continue to do so.

Delete sick pay from wages currently subject to FICA and FUTA taxes. 4

Agency Reply:

We presently are following procedures dictated to us by the proper state department and if this recommendation is correct, proper corrections will have to be taken at the state level.

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Request reimbursement for grants and contracts on a more timely basis.	4
<u>Agency Reply:</u> We presently are reviewing our policies in this area and where improvements can be made, we will institute them.	
Follow NDSL loan collection procedures more consistently.	4
<u>Agency Reply:</u> We concur and are in the process of implementing these collection procedures.	
Insure that exit interviews are conducted for all NDSL recipients.	4
<u>Agency Reply:</u> We have adopted a followup system to assure compliance in this area.	
Deposit revolving fund cash intact daily.	4
<u>Agency Reply:</u> This involves only the contingent revolving account and this now is being done on a daily basis.	
Require administrative approval of all designations of funds for use in another fund.	5
<u>Agency Reply:</u> The appropriate authority will designate such funds in the future.	
Provide better support for payroll cost allocations to grants and contracts.	5
<u>Agency Reply:</u> We are reviewing this area at the present time and here again, we will have to establish additional written policies and procedures.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Procedures for employee advances should be more fully documented.	5
<u>Agency Reply:</u>	
We have just completed our first year of operation in this area and will work with the Commissioner's Office in modifying the current procedures on this.	
Eliminate duplication of effort between Bureau of Mines and business office.	5
<u>Agency Reply:</u>	
We are evaluating the accounting functions in this area to determine if centralization would generate cost savings.	
Resolve various internal control weaknesses of the bookstore.	5
<u>Agency Reply:</u>	
We will start to develop more policies and procedures to correct the weaknesses in this particular area.	
Maintain compliance checklists.	6
<u>Agency Reply:</u>	
We will develop a compliance checklist as recommended.	
Require employees to confirm compliance with employment conditions.	6
<u>Agency Reply:</u>	
This recommendation will be reviewed with the Commissioner's Office for possible adoption as a system policy.	
Obtain a proper aging of all accounts receivable.	6
<u>Agency Reply:</u>	
We do not feel this is a big problem in this area. We will review and make corrections as necessary.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Maintain better EDP system documentation.	6
<u>Agency Reply:</u> This is being reviewed by the computer director and we will add documentation as needed.	
Formalize requirements for making program changes.	7
<u>Agency Reply:</u> We concur. We will formalize these requirements.	
Maintain a computer room console log or a log file.	8
<u>Agency Reply:</u> This could be an extremely complicated recommendation to implement with the limited personnel we have in this area. We will have to make some adjustments in this area if it becomes a big problem.	
Provide for proper EDP file protection and retention.	8
<u>Agency Reply:</u> Many of these recommendations refer to the old 1620 computer which will be replaced. Most of these recommendations will be complied with on our new computer.	
Provide for adequate EDP equipment backup and a disaster plan.	8
<u>Agency Reply:</u> We concur. We do have an informal procedure for this and are in the process of formalizing this plan.	
Develop formal procedures for review and approval of new EDP systems.	9
<u>Agency Reply:</u> We do have an informal procedure for this which we feel is adequate considering the size of our institution.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Provide for internal audit review of EDP.	9
<u>Agency Reply:</u>	
We have no position on our campus at the present time for this but if funding should become available, this is one of the priority positions we would like to fill.	
To reduce the possibility for misuse or misunderstanding, formal agreements should be developed for outside users of the EDP services.	9
<u>Agency Reply:</u>	
We will establish policies for outside users on a continuing basis. For one-time users, this is not practical.	
Properly segregate all phases of the EDP function, to the extent practicable.	10
<u>Agency Reply:</u>	
We will implement some of the recommendations as far as practical for the size of our operation.	
Maintain appropriate levels of EDP data control.	10
<u>Agency Reply:</u>	
Part of this is being done at the present time; other portions of this recommendation are in the process of being implemented.	
Correct weaknesses in EDP center security.	11
<u>Agency Reply:</u>	
We are providing adequate security as far as practical considering the location and type of building in which the computer is presently located.	
Prior Recommendations	11

ARTHUR ANDERSEN & CO.

PHOENIX, ARIZONA

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY as of June 30, 1976, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of the inadequacy of prior year records, we were unable to obtain sufficient evidence to form an opinion regarding the property, plant and equipment balances at June 30, 1975. However, we were able to satisfy ourselves that property, plant and equipment additions for the fiscal year ending June 30, 1976, were properly stated at cost.

In our opinion, except for the effect of such adjustments, if any, as might have been disclosed with respect to property, plant and equipment had prior year records been adequate, the accompanying financial statements present fairly the financial position of Montana College of Mineral Science and Technology at June 30, 1976, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

We have read the Indenture dated October 1, 1958, and Supplemental Indenture dated April 1, 1970, between the State Board of Education of the State of Montana (acting for and on behalf of Montana College of Mineral Science and Technology) and Metals Bank & Trust Company. In making our examination, nothing came to our attention except as discussed in footnote 2 to the financial statements that caused us to believe that there were any events of default by Montana College of Mineral Science and Technology in fulfillment of any of the terms, covenants, provisions or conditions of the indenture agreements, insofar as they pertain to accounting matters.

Our examination was also made in accordance with the CETA Financial and Compliance Audit Guide and the provisions of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", insofar as they relate to Contract No. PSE-327-6-6708, including modifications 1, 2 and 3. In making our examination, nothing came to our attention that caused us to believe that there were any events of non-compliance by Montana College of Mineral Science and Technology in fulfillment of the terms of the contract noted in the preceding sentence.

Arthur Andersen & Co.

Phoenix, Arizona,
November 19, 1976.

RECOMMENDATIONS FOR IMPROVEMENTS IN

ACCOUNTING PROCEDURES AND INTERNAL CONTROL

During our examination of the financial statements of Montana College of Mineral Science and Technology for the year ended June 30, 1976, we made a general review of the accounting procedures and system of internal control, including procedures and internal controls for data processing activity. Our review was not intended to constitute a comprehensive study of procedures, but covered only those areas which were pertinent to our audit objectives. As a result of this review, we have certain recommendations for improving the accounting and operating procedures and strengthening the system of internal control.

In making our data processing review, we noted that the College is in the process of replacing the IBM 1620 with a DEC PDP 11/70 and that the IBM 1620 is to be released in January, 1977. Our review included the procedures and controls in effect around both computers and our recommendations are made for the purpose of improving the overall controls, security and effectiveness of the general data processing function into new systems.

The matters discussed herein were considered during our examination of the financial statements as of June 30, 1976, and they do not modify the opinion expressed in our auditors' report dated November 19, 1976, on such financial statements.

We wish to express our appreciation for all of the courtesies and the high level of cooperation extended to our representatives by the personnel of the Montana College of Mineral Science and Technology throughout our examination.

Business Office Procedures Manual

Our review of the College's business office indicated the existence of a procedures manual; however, we found that the manual should contain more detailed job descriptions and responsibilities. In addition, procedures regarding the input and control of accounting data in the campus electronic data processing equipment were not included.

The documentation of organization responsibilities, job descriptions and responsibilities, and data control procedures are important elements in the consistent and proper treatment of operating transactions in the case of employee turnover. We recommend the College review and update its existing procedures manual to include at a minimum the following:

- (1) More detailed job descriptions and responsibilities
- (2) Data input and output controls
- (3) Closing procedures and checklists
- (4) Formal policies regarding such matters as the pricing of auxiliary and internal services and investment policies and procedures for local investments.

Gift and Grant Reporting

Consideration should be given to developing a procedure for documenting all gifts and grants: endowments, gifts, loans, scholarships, grants, contracts, and donated property. Any report developed should include date of donation or grant, description, method of valuation, donor, and gift restrictions, if any. These reports should be prenumbered, with copies circulated to the business office, appropriate administrators and the fund/account executive affected by the gift.

Physical Property Procedures

Property, plant and equipment constitute a significant portion of the total assets of the College and merit sound accounting practices and good internal control policies. While this matter is discussed later in this memorandum, in summarizing comments still applicable from the 1974 report by the Legislative Auditor, we are repeating it here because of its significance and impact on the College. Among the procedures which the College should consider are the following:

- establishing detail property records, with duplicate records maintained at a remote site, in case of fire or vandalism,
- tagging or engraving of all movable property items,
- establishing a specific capitalization policy,
- developing a procedure for reporting all property additions, including gifts and donated items, directly to the business office, and
- requiring regular cycle inventories of property items by department within the College.

Utilization of Loan Funds

A significant portion of the loan fund balance is represented by short-term investments. We suggest that a review be made as to other possible uses of these funds.

Budgeting

We recommend that an effort be made to more deeply involve academic and administrative personnel in the budgetary process so that such personnel would regard departmental budgets as their own and not just as "business office" budgets.

Sick Pay

Sick pay is not subject to FICA and FUTA taxes. Although sick pay is subject to income taxes, the College is not required to pay FICA and FUTA taxes for each day of sick leave taken by employees under Regulation 31.3121(a)-1 of the Internal Revenue Code. In order to minimize payroll tax expense for the College and the employees, the College should insure that all absences because of illness are segregated and reported to payroll, and that the payroll tax computations reflect the above exclusions.

Reimbursement for Grants and Contracts

Statements submitted to the donors of grants and contracts, including cost reimbursement contracts, are based on actual expenditures incurred. To improve the College's cash flow, we recommend requesting project reimbursement based on encumbrances rather than expenditures whenever possible. We understand that the College is taking steps to request reimbursement based on encumbrances for projects that allow such reimbursement.

NDSL Loan Collection Procedures

The College currently has written collection procedures, however, we noted that these procedures have not been consistently followed. Because of the program requirements and the increasing potential for losses on student loans, we recommend that existing procedures be followed and that a review be made on a regular basis to determine compliance with existing procedures.

NDSL Exit Interview

Our review disclosed several instances in which exit interview forms, required by the NDSL program, were not included in the student's file. We found this situation primarily with non-returning undergraduate students. The NDSL program calls for completion of the exit interview form. We did not find specific documentation in this regard, but were assured that attempts to comply were made.

We recommend that exit interviews be conducted with all program recipients, and registered letters be mailed to students not complying with the interview request, summarizing appropriate matters and requesting acknowledgement of receipt.

Cash Deposits

We noted that cash in the revolving account is not deposited in the bank daily, but rather is accumulated and commingled with later cash receipts. We recommend that all cash be deposited intact daily.

Quasi-Endowment Funds

Our review of the endowment funds indicated that a transfer of quasi-endowment funds from restricted gifts was made. We recommend that such transfers be properly approved at an appropriate administrative level.

Grant and Contract Payroll Cost Allocation

During our review of the charges made to specific projects within the grants and contracts area, we noted only limited support for payroll cost allocation by project, even though payroll is typically the most significant cost element. In many instances, the allocation is based on an estimate of the time spent on individual projects made at the beginning of the fiscal year.

We recommend that those individuals whose time is divided between school and various research projects be required to submit time reports to the grants and contracts accountant on a monthly basis. These time reports could then be used to document payroll cost allocations by specific project.

Employee Advances

At June 30, 1976, the College had over \$11,000 of employee advances receivable, but does not have detailed procedures for accounting and reporting for these advances. We recommend that such procedures be adopted, which would include criteria for making advances, reimbursement procedures, and management accounting reports.

Bureau of Mines

We noted certain duplication of effort between the Bureau of Mines and the business office in the preparation of internal management reports.

We recommend that the College evaluate the accounting functions being performed by the Bureau of Mines to determine if centralization of these functions could not generate cost savings and better utilization of available resources.

Student Union Bookstore

Our review of the bookstore indicated the following matters:

- (1) Books repurchased from students for resale are recorded as reductions of sales.
- (2) Accounts receivable of approximately \$2,700 were unrecorded at June 30, 1976.

- (3) Credit to non-faculty and students is extended without business office authorization.
- (4) The physical inventory at June 30, 1976, did not include all items on hand, such as books received but not on the shelf.
- (5) Product line gross margin and shrinkage factors are not determined.
- (6) Interim financial reports do not reflect gross profit.

The bookstore is a significant revenue generating auxiliary enterprise and, as such, its operations should be monitored closely by management.

We recommend that the College evaluate current procedures in effect in the bookstore and develop an operations and accounting procedures manual. Each of the matters set forth above should be corrected.

Compliance Checklist

The College is obligated under indenture and various other restricted loans, endowment and other gift agreements which have restrictive covenants and provisions. However, the College has not established formal procedures whereby a review of such restrictions is made to measure continued compliance or to warn of impending violations. We recommend that compliance checklists be prepared and applied on a regular basis. Such a procedure would signal potential problem areas so that corrective action could be taken on a timely basis.

Employment Policies

We recommend that the College require academic and administrative employees to sign an annual statement affirming their compliance with applicable policies in regard to the terms and conditions of their employment by the College.

Aging of Accounts Receivable

It is important, particularly under current economic conditions, that the College have a reliable procedure to determine the collectibility of its accounts receivable. The present reports do not provide for an accurate aging of the status of outstanding receivables.

Documentation of Computer Systems

The data processing center has limited facilities and a limited number of employees. We understand that management intends to implement these suggestions to the extent practical.

The existing documentation standards are skeletal and do not specify the data to be included as part of the total documentation package.

Good system documentation allows for a greater ease in understanding a system. This is very important in an environment where the individuals maintaining programs are continually changing, as in the case of student programmers.

The current standards should be expanded and the following items should be included to insure uniform systems documentation for the College:

- (1) An overall system flow chart for each application.
- (2) Narrative descriptions, flow charts, input and output formats, and program listings for each program.
- (3) File descriptions for each file used in each application.
- (4) A listing of all codes used in the systems.
- (5) Keypunch instructions.
- (6) Detailed operating instructions for each program.
- (7) A log of all program changes.

There are varying degrees of documentation for the current systems. Once the documentation standards are defined, all system documentation should be updated to reflect the documentation required.

The system documentation should be kept up-to-date and all program changes should be recorded in the program change log in the documentation. Up-to-date duplicates of all system documentation should also be maintained off-site.

Control of Program

Program modifications are made on a very informal basis. Requests are made by phone, in a memo or a hand written note. An essential feature to the control of programs and changes thereto as well as maintenance of documentation on a current basis is control over program changes. We recommend that a program change request form be developed to document the change to be made with a proper authorizing signature. There should also be a program change request control log to record requests and control the timely completion of all requests. A program change log should be included in the program documentation with a brief description of all changes made to the program and a cross reference to the program change request.

The Director should also review the changes made with the person authorizing the change before the modified program is put into production. The user should approve the modification as completed per request.

Operating Logs and Controls

The DEC PDP 11/70 does not have a console log in the traditional sense. The "console" in the computer room is similar to other terminals used in that it only records transactions entered from that terminal or messages directly to it.

The system should be modified so that either all messages relating to individuals signing on from terminals will appear on the computer room console log or a log file is used and printed daily. Access to any files should also be recorded showing the terminal accessing the file and the identity of the person operating the terminal. This log should then be reviewed daily for any unusual use of the terminals or access to files by unauthorized individuals.

File Protection and Retention

During our review, the following weaknesses were noted in the procedures and practices relating to file protection and retention:

- (1) No standards have been developed for file security procedures.
- (2) The Payroll and Receipts master files are stored in an unlocked, unsupervised room.
- (3) Other master files are stored in open shelves in the computer room.
- (4) The back-up files for most matters are stored in the data center while only systems files are stored in a remote location.

We recommend that the security over files be improved to restrict the access to files to authorized individuals, to facilitate ease of re-creating files when unforeseen events occur and to protect against loss, damage or destruction. This should include the use of off-site facilities to store back-up master files for all systems, and the use of a locked, fire-proof storage facility for files in the computer room. Procedures should be established and enforced to insure file protection.

Equipment Backup and Disaster Plan

The College has no formal agreement for equipment backup in the event of an extended equipment failure or disaster. There is also no written plan to be followed in the event such a disaster or extended failure occurs.

There is currently an oral agreement with a school district in Idaho Falls, Idaho, for equipment backup. We recommend that this agreement be formalized in writing and include such key features as computer time to be provided, frequency and cost. The computer in Idaho Falls is a DEC PDP 11/40. All

critical systems, such as Payroll, should be backed-up and tested on the PDP 11/40 to insure that, in the case of an emergency, the systems can be run at the back-up facility with a minimum of difficulty and inconvenience.

A disaster plan should also be developed specifying the procedures that are to be followed in case of a disaster or extended equipment failure. The plan should include persons to be contacted, procedures for the use of the backup facilities, including operating personnel, and procedures to insure that all backup copies of program and system software are current at all times.

New Systems

There is no formal review and approval process for new systems. This process is necessary to insure that the user's requirements have been properly communicated to the system's developer and that the user's needs will be satisfied by the new system.

We understand that no major new systems have been developed in recent years. Before any new system development or the acquisition of a software package is undertaken, data processing and management should agree upon and document the procedures that are to be observed in the review and approval of new systems.

Review of Data Processing

There is currently no internal audit function within the College. There is a need for an internal audit function to review on a periodic basis the internal controls within data processing and the controls designed for the DEC PDP 11/70. The College presently has no specifically identified internal audit group to perform this task.

A person should be designated, possibly from the business office, to participate in the design of all systems to insure that proper levels of controls and audit trails are incorporated into all new systems. This individual should also periodically review data processing's internal control procedures and the controls and audit trails within each system to insure that the controls are functioning in accordance with established standards.

Outside Users

The College provides data processing services to non-academic users and there are no formal agreements between the College and these users.

There should be a written agreement between the College and each outside user which should state the fees to be paid and the respective obligations and responsibilities of the College and outside organizations. Such agreements insure that all parties recognize their respective responsibilities for security over files and physical properties, destruction of data, back-up, insurance agreements, etc.

Segregation of Functions

Several weaknesses were noted in the area of segregation of functions: (1) there is no separation of programming, computer operations and data conversion duties, (2) only one individual has a working knowledge of some programs, (3) programmers are allowed to operate the computer, (4) data processing personnel are not required to take vacations, and (5) computer operators have access to detail program documentation.

Currently there are two full-time employees in the data center (the director and a programmer). There are also seven part-time student employees. All of the data processing personnel perform data entry functions within the computer center including keypunching and error correction and computer operations. All personnel also program.

It is very difficult in a small operation to provide for strict separation of duties. However, to the extent possible, segregation of duties should include the following considerations: (1) The number of individuals who have access to the machine room should be limited. (2) The passwords to computer files should be limited only to those employees who have a definite need to access these files. (3) The function of error correction should be removed from data processing and be performed exclusively in the user department. (4) Data processing employees should only have access to detail program documentation while they are working on a particular program and any changes to source code should be reviewed by the Director of the data center.

These procedures will help to prevent accidental or intentional damage to data files or unauthorized changes in programs.

Data Control Function

Data control functions are not being provided by the user or data processing. Data control consists of both manual and mechanical procedures and insures that all transactions are entered, processed and reported by the system. The following procedures are essential to good data control:

- (1) To control input, batch totals should be manually calculated and balanced to computer-generated totals. A written control log would provide a record of the balancing process and the physical movement of data into and out of the data center. Batch controls should be initiated and monitored by the user department personnel.
- (2) The system design should prohibit the origination or correction of transactions by data processing department employees. Only specifically authorized individuals should be allowed to originate entries.
- (3) The system should include procedures for insuring that all data rejected by the computer are corrected and re-input promptly.

- (4) The system should be designed to provide for program-to-program controls, either computerized or manual, to insure that all data processed by one program are properly passed to the next program and reported correctly.
- (5) A distribution plan and a method for controlling output should be developed. The control procedures should include balancing all reports before distribution to the user. The distribution procedures should be designed to prevent, to the extent possible, unauthorized persons from receiving copies of output reports.

Security

The following security weaknesses were noted during our review: (1) there is little physical security over the IBM 1620, (2) the DEC PDP 11/70's computer room is only locked when unoccupied, (3) access to sensitive areas such as tape file storage areas, the computer room and program documentation is available to all data processing employees, (4) there are no automatic alarms on accesses to the computer room, (5) there are no heat or smoke sensors in the computer center to automatically signal the fire department, (6) there are no automatic fire extinguishing systems in the computer center, and (7) the computer area does not have a gravity feed drain.

These weaknesses leave the data center very vulnerable to fire, flood and unauthorized access. Appropriate steps should be taken to correct these weaknesses in order to protect the facilities, data files and program documentation.

Prior Recommendations

The following recommendations, which have not been implemented, are summarized from the report on Montana College of Mineral Science and Technology for fiscal year 1973, prepared by the Legislative Auditor:

- Centralize the accounts receivable function and report all receivables on its financial statements.
- Establish procedures to properly record all fixed asset acquisitions and dispositions, take annual physical inventories of fixed assets, and attach identification tags to fixed assets.
- Apply the health service reimbursements policy equally to all students.
- Grant employees vacation leave in accordance with applicable state laws.

FINANCIAL STATEMENTS

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY

BALANCE SHEET

JUNE 30, 1976

ASSETS	CURRENT FUNDS			
	GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES
CASH ON HAND AND IN BANK	\$ 18,651	\$ -	\$ -	\$ -
CASH ON DEPOSIT WITH STATE				
TREASURER	103,160	-	13,280	4,256
RECEIVABLES:				
Student loans receivable	-	-	-	-
State appropriations	105,188	-	-	-
Accounts receivable	21,554	-	188,839	5,149
Less- Reserve for doubtful accounts	-	-	-	-
Total receivables	126,742	-	188,839	5,149
INVESTMENTS:				
Held by trustees	-	-	-	-
State of Montana Short-term Investment Plan	-	-	117,472	32,501
Total investments	-	-	117,472	32,501
OTHER ASSETS:				
Inventories	-	-	-	81,122
Deposits	-	-	-	-
Total other assets	-	-	-	81,122
DUE FROM (TO) OTHER FUNDS	(78,624)	9,164	18,625	3,861
PROPERTY, PLANT AND EQUIPMENT:				
Land	-	-	-	-
Buildings	-	-	-	-
Improvements	-	-	-	-
Equipment	-	-	-	-
Total property, plant and equipment	-	-	-	-
	\$169,929	\$9,164	\$338,216	\$126,889
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable and accrued liabilities	\$ 46,008	\$ -	\$ 23,551	\$ 13,834
Due state agencies	86,797	-	-	-
Accrued bond interest payable	-	-	-	-
Other liabilities and deposits	-	-	-	6,521
Unearned revenues	8,149	-	-	-
Bonds payable	-	-	-	-
Total liabilities	140,954	-	23,551	20,355
FUND BALANCES	28,975	9,164	314,665	106,534
	\$169,929	\$9,164	\$338,216	\$126,889

The accompanying notes are an integral

STUDENT LOAN FUND	ENDOWMENT FUND	AGENCY FUND	PLANT FUNDS		
			UNEXPENDED	RETIREMENTS OF INDEBTEDNESS	INVESTMENT IN PLANT
\$ 1,662	\$ -	\$ -	\$ -	\$ -	\$ -
<u>11,894</u>	<u>1,398</u>	<u>4,232</u>	<u>21,372</u>	<u>-</u>	<u>-</u>
203,475	-	-	-	-	-
-	-	-	1,503,669	-	-
-	-	-	-	-	-
(20,000)	-	-	-	-	-
<u>183,475</u>	<u>-</u>	<u>-</u>	<u>1,503,669</u>	<u>-</u>	<u>-</u>
-	-	-	29,000	117,670	-
92,299	93,387	30,680	319,541	-	-
<u>92,299</u>	<u>93,387</u>	<u>30,680</u>	<u>348,541</u>	<u>117,670</u>	<u>-</u>
-	-	-	-	-	-
1,850	-	-	-	-	-
<u>1,850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	(29,165)	76,139	-	-
-	-	-	-	-	87,658
-	-	-	-	-	6,506,529
-	-	-	-	-	285,523
-	-	-	-	-	2,426,302
-	-	-	-	-	9,306,012
<u>\$291,180</u>	<u>\$94,785</u>	<u>\$ 5,747</u>	<u>\$1,949,721</u>	<u>\$117,670</u>	<u>\$9,306,012</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	23,960	-
-	-	5,747	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,282,000
-	-	5,747	-	23,960	1,282,000
291,180	94,785	-	1,949,721	93,710	8,024,012
<u>\$291,180</u>	<u>\$94,785</u>	<u>\$ 5,747</u>	<u>\$1,949,721</u>	<u>\$117,670</u>	<u>\$9,306,012</u>

part of this financial statement.

STATEMENT OF CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 1976

	CURRENT FUNDS			
	GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES
REVENUES AND OTHER ADDITIONS:				
Unrestricted fund revenues-				
College	\$2,048,642	\$72,535	\$ -	\$452,783
Bureau of Mines	814,765	-	-	-
Restricted state appropriations	-	-	-	-
Land grant income	-	-	-	-
Restricted student fees	-	-	-	-
Federal grants and contracts	-	-	1,007,405	-
State grants and contracts	-	-	99,909	-
Private gifts, grants and contracts	-	-	226,404	-
Investment income	-	-	-	-
Interest on loans	-	-	-	-
Expended for plant facilities (including	-	-	-	-
\$231,695 charged to current fund	-	-	-	-
expenditures)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Total revenues and other additions	<u>2,863,407</u>	<u>72,535</u>	<u>1,333,718</u>	<u>452,783</u>
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures-				
College	2,139,058	67,185	1,169,527	449,972
Bureau of Mines	725,814	-	-	-
Indirect cost recoveries	-	-	145,670	-
Loan cancellations and bad debt expenses	-	-	-	-
Administrative and collection costs	-	-	-	-
Expended for plant facilities	-	-	-	-
Retirement of indebtedness	-	-	-	-
Interest on indebtedness	-	-	-	-
Total expenditures and other deductions	<u>2,864,872</u>	<u>67,185</u>	<u>1,315,197</u>	<u>449,972</u>
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):				
Mandatory-				
Pledged net revenues of certain auxiliaries	-	-	-	(3,738)
For retirement of indebtedness	-	-	-	-
Voluntary transfers-				
Restricted gift to quasi-endowment	-	-	(10,000)	-
Loan fund investment income	-	-	5,245	-
Total transfers	-	-	(4,755)	(3,738)
CHANGE IN FUND BALANCE	<u>(1,465)</u>	<u>5,350</u>	<u>13,766</u>	<u>(927)</u>
FUND BALANCE, beginning of year, as previously reported	1,680	-	19,017	121,461
FINANCIAL SEPARATION OF THE FOUNDATION, RETROACTIVE TO JULY 1, 1975 (Note 5)	-	-	163,845	-
CORRECTION OF VARIOUS ERRORS IN PREVIOUSLY ISSUED FINANCIAL STATEMENTS	<u>28,760</u>	<u>3,814</u>	<u>118,037</u>	<u>(14,000)</u>
FUND BALANCE, beginning of year, as restated	<u>30,440</u>	<u>3,814</u>	<u>300,899</u>	<u>107,461</u>
FUND BALANCE, end of year	<u>\$ 28,975</u>	<u>\$ 9,164</u>	<u>\$ 314,665</u>	<u>\$106,534</u>
FUND BALANCE CONSISTS OF:				
Unrestricted-				
College	\$ (59,976)	\$ -	\$ -	\$106,534
Bureau of Mines	88,951	-	-	-
Designated	-	9,164	-	-
Quasi-endowment	-	-	-	-
Endowment	-	-	-	-
Restricted	-	-	314,665	-
Net investment in plant	-	-	-	-
Total	<u>\$ 28,975</u>	<u>\$ 9,164</u>	<u>\$ 314,665</u>	<u>\$106,534</u>

The accompanying notes are an integral

STUDENT LOAN FUND	ENDOWMENT FUND	PLANT FUNDS		INVESTMENT IN PLANT
		UNEXPENDED	RETIREMENTS OF INDEBTEDNESS	
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	1,552,000	-	-
-	-	232,856	-	-
-	-	38,812	-	-
-	-	-	23,694	-
-	-	-	-	-
6,922	594	21,266	5,796	-
3,007	-	-	-	-
-	-	-	-	470,106
-	-	-	-	20,000
<u>9,929</u>	<u>594</u>	<u>1,844,934</u>	<u>29,490</u>	<u>490,106</u>
-	-	-	-	-
-	-	-	-	-
3,477	-	-	-	-
1,163	274	-	-	-
-	-	238,411	-	-
-	-	-	20,000	-
-	-	-	96,205	-
<u>4,640</u>	<u>274</u>	<u>238,411</u>	<u>116,205</u>	<u>-</u>
-	-	-	-	-
-	-	3,738	-	-
-	-	(88,180)	88,180	-
-	10,000	-	-	-
(5,245)	-	-	-	-
(5,245)	10,000	(84,442)	88,180	-
<u>44</u>	<u>10,320</u>	<u>1,522,081</u>	<u>1,465</u>	<u>490,106</u>
307,286	84,465	420,530	116,585	7,257,794
-	-	7,110	-	304,134
(16,150)	-	-	(24,340)	(28,022)
<u>291,136</u>	<u>84,465</u>	<u>427,640</u>	<u>92,245</u>	<u>7,533,906</u>
<u>\$291,180</u>	<u>\$94,785</u>	<u>\$1,949,721</u>	<u>\$ 93,710</u>	<u>\$8,024,012</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
78,463	-	402,552	-	-
-	18,000	-	-	-
-	76,785	-	-	-
212,717	-	1,547,169	93,710	-
-	-	-	-	8,024,012
<u>\$291,180</u>	<u>\$94,785</u>	<u>\$1,949,721</u>	<u>\$ 93,710</u>	<u>\$8,024,012</u>

part of this financial statement.

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1976

	GENERAL OPERATING FUND	DESIGNATED FUND	RESTRICTED FUND	AUXILIARIES FUND
REVENUES:				
Tuition and fees	\$ 380,479	\$55,193	\$ -	\$ -
State appropriations-				
College	1,495,851	-	-	-
Bureau of Mines	742,898	-	-	-
Federal grants and contracts	127,120	-	852,414	-
State grants and contracts	3,525	-	84,169	-
Private gifts, grants and contracts	16,137	-	232,943	-
Auxiliary enterprises	-	-	-	452,783
Sales and services-				
College	7,271	-	-	-
Bureau of Mines	71,867	-	-	-
Other	18,259	17,342	-	-
Total revenues	<u>2,863,407</u>	<u>72,535</u>	<u>1,169,526</u>	<u>452,783</u>
EXPENDITURES:				
Instructional	966,331	-	1,767	-
Organized research	134,678	-	842,333	-
Academic support	132,737	-	67,255	-
Student services and aid	141,419	67,185	163,934	-
Operation and maintenance of plant	410,697	-	21,868	-
Institutional support	443,292	-	6,727	-
Scholarships and fellowships	56,425	-	65,642	-
Auxiliary enterprises	-	-	-	449,972
Recovery from Bureau of Mines	(146,521)	-	-	-
	<u>2,139,058</u>	<u>67,185</u>	<u>1,169,526</u>	<u>449,972</u>
Independent operations-				
Bureau of Mines	579,293	-	-	-
Services provided by College	146,521	-	-	-
	<u>725,814</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>2,864,872</u>	<u>67,185</u>	<u>1,169,526</u>	<u>449,972</u>
TRANSFERS AND OTHER CHANGES - INCREASE (DECREASE):				
Mandatory transfer of pledged net revenues of certain auxiliaries	-	-	-	(3,738)
Voluntary transfers-				
Loan fund investment income	-	-	5,245	-
Restricted gifts to quasi-endowment	-	-	(10,000)	-
Excess of restricted receipts over transfers to revenues	-	-	18,521	-
NET INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (1,465)</u>	<u>\$ 5,350</u>	<u>\$ 13,766</u>	<u>\$ (927)</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1976

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Comparability of Financial Statements-

The financial statements included herewith are not comparable in certain respects with previously published financial statements because of a revised account classification structure and more complete adherence to the recommendations of the AICPA Audit Guide for Colleges and Universities.

Basis of Accounting-

To the extent that current funds are expended to acquire plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal acquisitions and/or replacements of equipment; and (2) mandatory transfers, in the case of required provisions for debt amortization and interest.

Investments are stated at cost. The aggregate market value of investments exceeded cost at June 30, 1976.

In accordance with accepted accounting principles for colleges and universities, the College does not provide for depreciation of physical properties.

Tuition and fees revenues (net of refunds) include \$56,425 of remissions and waivers charged to scholarships and fellowships.

Fund Accounting-

In order to observe limitations and restrictions placed on the use of the resources available, the accounts are maintained in accordance with the principles of "fund accounting." Those principles require that resources be classified, for accounting and reporting purposes, into account groups (funds) in accordance with the activities or objectives specified for the resources. Accounts are separately maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are distinguished from unrestricted funds, or designated funds allocated for a specific purpose by the College or its Board.

Description of Funds-

The current funds are used primarily to account for transactions which are expended in performing the primary and support objectives of the College and the Bureau of Mines; i.e., instruction, research, academic support, student

services, institutional support, operation and maintenance of plant, scholarships and fellowships, independent operations, and auxiliary activities. Operating funds are comprised of the following:

- (1) The General Operating Fund which is used to account for those transactions related to the College's State appropriated budget.
- (2) The Designated Fund which is used to account for transactions of the Associated Student Funds. The resources in this fund have been designated for specific purposes by the Montana State Board of Regents.
- (3) The Restricted Fund which is used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended. Receipts of the Restricted Fund are reported as revenues only to the extent expended for current operating purposes.
- (4) The Auxiliary Enterprise Fund which is used to account for those transactions of substantially self-supporting activities that primarily perform a service to students, faculty, and staff. The general public may be served by some auxiliary enterprises. Auxiliary enterprises include, but are not limited to, student housing, food service, and bookstore.

Federal funds provided to the College and accounted for in the Restricted Fund and the Student Loan Fund are subject to review and audit by Federal agencies.

The nonoperating funds consist of the Student Loan Fund, the Endowment Fund, the Agency Fund, and the Plant Funds.

The Student Loan Fund, partially financed by the Federal Government, is used to account for transactions primarily related to loans to students. Provisions of the Federal loan program stipulate that:

- (1) The College match one-ninth of the Federal contributions.
- (2) A portion of the loan principal and interest (maximum of 15% per year) will be cancelled if the recipient completes certain employment requirements. These cancellations are absorbed by the Federal Government.

The Endowment Fund is subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and that only income be utilized. Quasi-endowment funds have been established by the College for the same purpose as endowment funds, however, any portion of quasi-endowment funds may be expended.

The Plant Funds contain the transactions related to investments in institutional properties and include (1) Unexpended Plant Fund, (2) Retirement of Indebtedness Fund, and (3) Investment in Plant Fund.

The Unexpended Plant Fund is comprised of funds which have been appropriated or designated for land, buildings, improvements, and equipment. Sources of these funds include student fees, land grant income, and State appropriations. In accordance with the College's bond indenture agreements, the College must make deposits with a trustee to provide for maintenance and repairs of the on-campus student housing and Student Union Building.

The Retirement of Indebtedness Fund represents funds on deposit with trustees set aside under the College's bond indenture agreement. Sources of funds are Federal grants and transfers from the Unexpended Plant Fund.

Investment in plant represents the total of physical properties and related indebtedness.

The Agency Fund is used to account for assets held by the College as custodian or fiscal agent for others. Consequently, the transactions of this fund do not affect fund balances.

(2) BONDS PAYABLE:

At June 30, 1976, bonds payable included the following:

Bonds payable, at 3%, secured by land grant income, student fees and net project revenues, payable in installments through 1996, including \$6,000 maturing within one year	\$ 152,000
Bonds payable, at interest rates ranging from 7.5% to 9%, secured by land grant income, student fees, and net project revenues, payable in installments through 2001, including \$15,000 maturing within one year	1,130,000

	\$1,282,000
	=====

The Indenture dated October 1, 1958, and Supplemental Indenture dated April 1, 1970, provide, among other things, that the College will maintain a bond and interest sinking fund account and repair and replacement reserve account, provide audited financial statements of the College to the trustees within a specified period of time and to any requesting bondholders, and pledge and appropriate the net revenues of the project, student building fees, and land grant income for the retirement of bonds payable.

The College is also recipient of a Federal debt service grant restricted for use in retirement of bond indebtedness.

The College has not complied with the indenture covenant regarding delivery of audited financial statements to the trustee but has obtained a waiver of this covenant through January 31, 1977.

(3) LAND GRANT STATUS:

The Congress of the United States, by the enabling act approved February 22, 1889, granted to the State of Montana 100,000 acres for the College and provided that all monies received from the sale of lands belonging to this grant, together with proceeds from the sale of timber, oil royalties and other minerals, should be credited to a permanent fund for each of the land grant institutions. It also provided that permanent funds could not be used for any other purpose and must remain forever inviolate as the property of each of the land grant funds.

The College's land grant assets are not reflected in these financial statements, but are shown in the Montana Department of Land's financial statements. At June 30, 1976, 59,606 acres and \$1,514,000 remain to benefit the College.

(4) INVESTMENTS:

Invested funds, other than those held by the Trustee, are held by the State Investment Department and yield an approximate interest rate of 7.2%.

(5) CONTINGENCIES:

As of October 1, 1975, in response to House Bill 271, a financial separation of the College and the Foundation was completed, retroactive to July 1, 1975. In order to alleviate the deficit in the Foundation caused by the separation, College management allocated approximately \$29,000 to the Foundation. The \$29,000 is included in restricted fund expenditures.

Because of a reversion provision, a total of approximately \$85,000 (\$71,000 attributable to the College, \$14,000 to the Bureau of Mines) is included in the financial statements as a liability, due state agencies.

A state appropriation to the Bureau of Mines of \$140,000 for ground water research was recorded in the fiscal year. Approximately \$57,000 was expended on this research to June 30, 1976.

All permanent employees of the College are covered by one of two State retirement plans which are both contributory.

The College does not record accumulated liability for employee sick leave and vacation pay.

AGENCY REPLY



MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
BUTTE, MONTANA 59701

BUSINESS OFFICE

February 3, 1977

Mr. Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana 59601

FEB 1977
MONTANA LEGISLATIVE AUDITOR


Dear Morris,

As requested, we are enclosing the original copies of our Summary of Recommendations and our Reply To Recommendations For Improvements In Accounting Procedures And Internal Control.

Copies of these were originally sent to Arthur Andersen and Company for inclusion in their report.

If anything additional is needed, please contact me.

Sincerely,


Victor Burt
Business Manager

VB:jlk

encls.

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
Butte, Montana 59701

REPLY TO RECOMMENDATIONS FOR IMPROVEMENTS IN
ACCOUNTING PROCEDURES AND INTERNAL CONTROL

(1) Business Office Procedures Manual

- 1) We will review and modify, as needed, our internal Business Office Information and Procedures Manual to give more detailed job descriptions and responsibilities.
- 2) The computer center is in the process of establishing policies and procedures for data input and output controls.
- 3) We will analyze the need for closing procedures and checklists and act accordingly.
- 4) We agree and will work with the appropriate auxiliary enterprise personnel in establishing formal policies regarding such matters as the pricing of auxiliary and internal services; in addition, policies and procedures for local investments will be developed if needed. We now use STIP exclusively with the exception of our trustee account monies.

(2) Gifts and Grants Reporting

We concur in this recommendation. We are in the process of developing procedures and policies. We will work with the Commissioner's Office for system-wide application.

(3) Physical Property

Currently, we are waiting for the Department of Administration's chapter addition to the Montana Administrative Manual entitled Property Accountability Management Systems (PAMS). When we receive these procedures, we hope to proceed accordingly.

(4) Utilization of Loan Funds

We have satisfied the needs of all students requesting loans. We do have a substantial amount of loan fund dollars and we will initiate a review for possible other uses of these funds. I doubt whether or not this will accomplish much as all of these funds are restricted for a specific purpose by individual donors.

(5) Budgeting

Our college president is continually making efforts to more deeply involve the academic and administrative personnel in the budgeting process. Many times, budget requests are sent to academic departments and no reply is received. Also, many times through the various levels of our budgeting process, we do not have time to get back to the department heads for their input on the various changes that may occur throughout the various levels of budgeting.

We will continue to make an effort to involve those academic and administrative departments in the budgeting process.

(6) Sick Pay

These taxes are withheld on the basis of instructions received from the applicable state agency. We would certainly concur in this recommendation if we would not have to pay those taxes on sick leave taken by an employee. This could be a terrific savings not only to the institution but to the state of Montana.

(7) Reimbursement for Grants and Contracts

The majority of our contracts and research involve federal funds. Some of the projects do allow for reimbursement based upon encumbrances -- some do not. In checking with our grant accountant, this amount of encumbrances is immaterial. At the time, it does become material, we definitely would attempt to seek reimbursement in order to improve our cash flow.

(8) NDSL Loan Collection Procedures

We concur and are currently in the process of fully implementing these collection procedures. All accounts currently delinquent on which there have been no specific requests for other financial arrangements, will be turned over to the collection agency.

(9) NDSL Exit Interview

A letter and follow-up system has been adopted to assure compliance in this area. It is very difficult to get exit interviews because a majority of students, when leaving, usually give no notice or simply do not return the next semester.

(10) Cash Deposits

The contingent revolving account activity is minor and the amounts immaterial; however, these funds are now being deposited daily, intact, in conformity with our regular receipts.

(11) Quasi-Endowment Funds

We concur with this recommendation. The appropriate administrative authority will designate said funds in the future.

(12) Grants and Contracts Cost Allocation

We are reviewing our cost allocation procedures for work done by the employees in the Grants and Contracts area. We will develop better written policies and procedures to correct any deficiencies which might occur in this area.

(13) Employee Advances

We are reviewing our procedures for employee travel advances as they now appear in our Business Office Procedures Manual. In addition, we will work with the Commissioner's Office in modifying our current procedures system-wide.

(14) Bureau of Mines

We will evaluate the accounting functions now being performed by the Bureau of Mines to determine if centralization of these functions will generate cost savings and better utilization of available resources.

(15) Student Union Bookstore

We will work with the auxiliary enterprises manager to try to develop policies and procedures in the bookstore area. The bookstore is now run by one clerical person and one part-time clerical person. Although we lack professional expertise in this area, we feel that a thorough study will indicate any area that are weak.

(16) Compliance Checklist

We will revise and develop a compliance checklist as deemed necessary.

(17) Employment Policies

We will review this recommendation with the Commissioner and the Regents for possible state-wide adoption.

(18) Aging of Accounts Receivable

Except in the area of NDSL loans, we feel that there is little need for aging of accounts receivables. As per our collection procedures, all student delinquent accounts -- unrestricted funds and institutional loan funds -- are maintained on a day-to-day basis; consequently, the direct charge-off method of recognizing credit losses is used. In reviewing the Grants and Contracts area, we feel there is very little chance for a receivable to become uncollectible.

Since there has been an adjusting entry made in the NDSL area, we feel that this area is okay.

We do recognize an analysis of accounts receivable gives management a useful tool in determining the status of collections and the probability of credit losses. We will review this analysis in an ongoing basis.

General Statement on Data Processing

There are many recommendations made in this particular area. We feel that many of these recommendations are ones that could be complied with if we had the ideal computer location, staff and facilities. In other words, if the computer were located in a new building specifically designed for that kind of installation and adequately staffed, we possibly could comply with the majority of these recommendations. It is our feelings that some of the recommendations do not take into consideration the fact that we have just recently acquired a new PDP 11/70 computer that is in a temporary location which was not designed for this kind of installation, and it is operated by a very small staff. So for many of these recommendations that have been made, because of the above circumstances, we will be unable to comply.

The following are the replies received from the director of our computer center:

(19) Documentation of Computer Systems

Documentation on the 1620 system satisfied all seven points except number 7; documentation for the PDP 11/70 is skeletal because of the fact that we are in a conversion. Once accomplished, it will be brought up to the existing documentation on the 1620.

The recommendation regarding off-site documentation and logging of all program changes will be considered in the new documentation standards.

(20) Control of Program

An excellent suggestion; in the process of incorporating them, we will formalize this.

Reviews are made on an informal basis but we will formalize this.

(21) Operating Logs and Controls

This is Utopia. This would be extremely complicated with the limited personnel we have, to design, implement and control. Access of files by unauthorized personnel is protected by an internal security system in the PDP 11/70; therefore, we feel the security system is adequate.

(22) File Protection and Retention

(1) and (2) - Irrelevant. This is only on the 1620 which will be replaced shortly.

(3) and (4) - We adhere to all recommendations in the back-up of master files on the new computer.

Master files on the new computer -- payroll, etc. -- will have copies stored in the remote site.

(23) Equipment Backup and Disaster Plan

We feel this is a good suggestion and are in the process of establishing a written agreement with Idaho Falls to provide backup.

Documentation on the new computer will include a disaster plan.

(24) New Systems

We have an informal procedure for review of new systems which consists of written requests followed up by personal meetings, etc. This procedure, we feel, can be depended upon because we are a small institution.

(25) Review of Data Processing

There is no internal audit on our campus at the present time. The new staff member we plan to hire will perform some limited internal audit function but I do not foresee him being involved too much in the data process area with the exception of proper billing and collection of computer time, etc.

(26) Outside Users

For any outside user on a continuing basis, we will establish a written policy and guide. For one-time or minimal users, we do not feel this is necessary.

(27) Segregation of Functions

In a small shop, segregation of functions is very difficult because of lack of employees.

(1) and (2) - This is presently true.

(3) Data processing department does not make any corrections on user data. All changes to files are initiated in the user department.

(4) Being done.

(28) Security

General Comment: The building in which the computer center is located is protected by smoke sensor alarms. There is one located in the hallway but not one directly in the computer center. Possibly we could make arrangements to have a smoke sensor located in the computer room.

There are no automatic fire extinguishing systems in the computer room and I am not sure what type of system we would want. To me, a sprinkling system would be completely unacceptable and the cost of putting in a gravity feed drain would be prohibitive. I cannot foresee where water would reach the depths that would damage the computer as it would flow out of the doorway and down the hallway to the stairways if there were a serious break.

Regarding the specific comments: (1) Irrelevant - the 1620 is being retired; (2) now locked at all times; (3) don't have the staff to implement this; (4) true -- but computer center is checked periodically by engineering staff of the physical plant; (5) note general comments; (6) note general comments; (7) note general comments.

(29) Prior Recommendations

- (a) We feel that accounts receivable in the sales and services to outside users is better decentralized because the particular manager can take into account those factors affecting his particular situation and act accordingly.

We will work with the Commissioner's Office on the justification of booking all receivables at year end for reporting purposes.

- (b) See (3) Physical Property.

- (c) We have reviewed our health insurance policy with a student committee and were unable to come to an agreement on possible changes. Again, this will possibly be reviewed. We do apply the health service reimbursements equally to all students but we do use the reserve fund to pick up part of the claims for injuries in the athletic program not covered by our insurance policy.

(29) Prior Recommendations (continued)

- (d) We do grant employees vacation leave in accordance with applicable state laws except for individuals who have Board of Regents contracts with academic rank, and these are awarded vacations based upon Regents' policy. This policy has been in effect for a number of years and was in effect at the time of the last audit.

General Comments

We feel that the audit has more fully brought us in conformity with accounting and financial reporting as prescribed in the AICPA Audit Guide. The Commissioner's Office currently is working with the Department of Administration to change SBAS to satisfactorily accommodate the needs of the University System in our reporting requirements.

We hope our reply to your recommendations are sufficient and will proceed to implement these recommendations on a priority basis.

We are very appreciative of the thoroughness of the audit performed by your company. It has been very enjoyable working with the staff of Arthur Anderson and Company.

It is my personal feeling that this is the most complete and thorough audit we have had at Montana Tech since I have been here.

